

Message Text

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ACTION EUR-12

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INFO ALL EC CAPITALS
AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY NICOSIA

C O N F I D E N T I A L BRUSSELS 06296

USEEC

E.O. 11652:GDS
TAGS: EEC, CY
SUBJECT: EC-CYPRUS ECONOMIC/TRADE NEGOTIATIONS

REF: A) EC BRUSSELS 5599, B) EC BRUSSELS 4565

1. SUMMARY. THE EC AND THE GOVERNMENT OF CYPRUS (GOC) ARE EXPECTED TO INITIAL ON JUNE 22 SEVERAL PROTOCOLS REGARDING TRADING ARRANGEMENTS AFTER JULY 1 AND COMMUNITY FINANCIAL ASSISTANCE TO CYPRUS. A CYPRIOT OFFICIAL HERE TOLD THE MISSION HIS GOVERNMENT IS REASONABLY WELL SATISFIED WITH THE OUTCOME OF THE EC-GOC NEGOTIATIONS. END SUMMARY.

2. ACCORDING TO DCM AT CYPRIOT MISSION TO EC AND COREPER OFFICIALS, GOC AND EC COMMISSION ARE SCHEDULED TO INITIAL IN BRUSSELS JUNE 22 SEVERAL PROTOCOLS TO THE EC-CYPRUS ASSOCIATION AGREEMENT PROVIDING FOR CONTINUATION OF EC-CYPRUS TRADE BEYOND JULY 1 ALONG THE LINES SKETCHED OUT IN REFTELS. ONE OF THE PROTOCOLS TO BE SIGNED PROVIDES FOR
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EC ECONOMIC ASSISTANCE TO CYPRUS IN THE AMOUNT OF 30 MILLION UNITS OF ACCOUNT (1 U.A. \$1.1).

3. CYPRIOT DCM SAID THAT WHILE THE PRESENT "FIRST STAGE" OF THE EC-CYPRUS ASSOCIATION AGREEMENT IS BEING EXTENDED THROUGH 1979 FOR TRADE IN INDUSTRIAL GOODS, THE EC HAS ALSO MADE "SOME FURTHER REDUCTIONS" IN INDUSTRIAL TARIFFS FOR

CYPRIOT PRODUCTS WHICH MEET THE COMMUNITY'S RULES OF ORIGIN STANDARDS. HE NOTED IN THIS CONNECTION THAT THE EC HAS NOW AGREED TO RULES OF ORIGIN FOR CYPRIOT GOODS CONFORMING WITH THOSE THE COMMUNITY HAS RECENTLY NEGOTIATED WITH OTHER MEDITERRANEAN COUNTRIES. CYPRIOT OFFICIAL SAID CYPRUS HAS AGREED TO SOME ADDITIONAL REDUCTIONS ON INDUSTRIAL TARIFFS FOR IMPORTS FROM THE EC, THOUGH NOT NEARLY AS MUCH AS COMMUNITY HAD REQUESTED AT OUTSET OF NEGOTIATIONS (EC INITIALLY ASKED FOR 45 PER CENT REDUCTION ACROSS THE BOARD). WE DO NOT YET HAVE DETAILS ON WHAT HAS IN FACT BEEN AGREED TO IN THIS CONNECTION.

4. CYPRIOT OFFICIAL REFERRED TO THE EC'S EFFORT DURING THESE NEGOTIATIONS TO FIND FORMULAE REGARDING THE FINANCIAL PROTOCOL AND RULES OF ORIGIN WHICH WOULD BE ACCEPTABLE TO THE TURKISH CYPRIOT COMMUNITY AND CONSISTENT WITH THE EC COUNCIL'S PROMISE THAT EC-CYPRUS TRADE/ECONOMIC ARRANGEMENTS WOULD BENEFIT BOTH CYPRIOT COMMUNITIES (REF A). HE SAID THE FINANCIAL PROTOCOL TO BE INITIALLED ON JUNE 22 WILL BE SIMILAR TO PROTOCOLS THE COMMUNITY HAS NEGOTIATED WITH OTHER COUNTRIES AND WILL MAKE NO MENTION OF ANY SPECIFIC AMOUNT TO BE USED FOR FINANCING PROJECTS IN THE TURKISH SECTOR. HE OBSERVED, HOWEVER, THAT EC MEMBER STATES WILL DOUBTLESS ORCHESTRATE THEIR RATIFICATIONS OF THE PROTOCOL AND EC DISBURSEMENTS UNDER IT IN SUCH A WAY AS TO TRY TO ENSURE THAT SOME PROPORTION OF THE 30 MILLION U.A DOES IN FACT GO TO NORTHERN CYPRUS. AS REGARDS RULES OF ORIGIN, HE SAID GOC RESISTED COMMUNITY ATTEMPTS TO FIND LANGUAGE WHICH WOULD MAKE IT "TOO EASY" FOR TURKISH CYPRIOT

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PRODUCTS TO ENTER THE EC. GOC HAD REJECTED EC FORMULATION GRANTING ENTRY TO PRODUCTS ACCOMPANIED BY CERTIFICATES OF ORIGIN "ISSUED BY CUSTOMS OFFICIALS IN CYPRUS" AND HAD INSISTED INSTEAD ON LANGUAGE REQUIRING THE CERTIFICATES TO BE ISSUED BY "CYPRUS CUSTOMS OFFICIALS." HE PREDICTED THAT SOME EC MEMBER COUNTRIES WILL INTERPRET THE LATTER LANGUAGE LOOSELY TO PERMIT CONTINUED ENTRY OF PRODUCTS FROM THE TURKISH SECTOR AND OBSERVED THAT IN THAT CASE "THE CYPRIOT GOVERNMENT COULD TAKE THE EC TO COURT IF IT CHOSE TO." (COMMENT: IN THE COURSE OF THIS CONVERSATION WITH MISSION OFFICER, INCIDENTALLY, CYPRIOT DCM MADE IT QUITE CLEAR THAT HIS MISSION AND OTHER CYPRIOT DIPLOMATIC ESTABLISHMENTS IN EUROPE HAVE SINCE 1974 FREQUENTLY CAUTIONED EC MEMBER GOVERNMENTS AND INDIVIDUAL IMPORTERS IN THEIR COUNTRIES AGAINST IMPORTING GOODS FROM THE TURKISH ZONE; HE IMPLIED THAT SUCH GOC EFFORTS ARE CONTINUING. HIS COMMENTS IN THIS CONNECTION THUS APPEAR RELEVANT TO NICOSIA'S 1464-- THE ECONOMIC WARFARE ISSUE." END COMMENT.)

5. CYPRIOT DCM SAID GOC IS REASONABLY WELL SATISFIED WITH
OUTCOME OF NEGOTIATIONS WITH THE EC ON THREE COUNTS:
(1) THE GOC ATTACHES POLITICAL IMPORTANCE TO THE EC'S
ULTIMATE WILLINGNESS TO NEGOTIATE FURTHER TRADE ARRANGE-
MENTS AND FINANCIAL ASSISTANCE PROTOCOL WITH THE GOC, AFTER
INITIAL RELUCTANCE IN ABSENCE OF A POLITICAL SETTLEMENT ON
CYPRUS; (2) THE FINANCIAL PROTOCOL WILL PROVIDE SUBSTANTIAL
ASSISTANCE; AND (3) EVEN THOUGH THE EC DID NOT GRANT
FURTHER AGRICULTURAL CONCESSIONS TO CYPRUS AT THIS TIME, IT
IS COMMITTED TO FURTHER NEGOTIATIONS ON AGRICULTURE THIS
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